



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Oct 10 – Oct 14, 2016

Interest rates continue to be the main story, with 30-year treasury yields now 25bp higher over the past two weeks up to a four-month high as part of a broad-based selloff globally. The most recent impetus for this move was Friday's speech by Janet Yellen, where ironically she effectively made a philosophical argument for letting rates run lower for longer (and risk letting inflation overheat) to stimulate the supply side of the economy. Her apparent willingness to tolerate higher inflation triggered a steepening move in the US rate curve.

Away from rates it was a mixed week for risk markets overall, and for the most part investment grade credit spreads continue to outperform. New issue activity remains muted – October supply volumes are running about half the pace of September – which combined with higher all-in yields has created a technical bid for credit. A notable exception is European banks, which continue to suffer from Deutsche Bank weakness and fallout from Brexit.

US CPI on Tuesday will likely set the tone for interest rates this week, and the US election continues to gain focus. With the presidential race looking increasingly like a foregone conclusion, the balance of power in Congress (and hence the Democrats' ability to pursue some of their more contentious policies) may prove to be the relevant race as far as markets are concerned.

### NAMES IN THE NEWS



- JP Morgan quarterly earnings beat expectations, citing amongst other things strong revenues in fixed income trading. Capital ratios continue to improve, with the Tier 1 ratio rising from 11.4% to 11.9% over the past 12 months.
- DBRS affirmed the ratings of a number of Canadian energy companies and moved the trend outlook from negative to stable. Included in the announcement were Husky Energy (A-low), Suncor (A-low) and Canadian Natural Resources (BBB-high).



- Embattled Wells Fargo CEO John Stumpf announced he would step down over fallout from the bogus accounts scandal which has seen WFC stock fall 12% over the past six weeks. Chief Operating Officer Tim Sloan steps into the CEO role effective immediately. WFC bond spreads were modestly tighter on the week.
- Deutsche Bank shored up its balance sheet by raising USD 4.5 billion at a spread of 300 over 5-year treasuries via a privately placed deal last week. Though the deal did help stem the fall in Deutsche secondary bonds, the pricing was a full 75bp wider than the bank's last public deal priced in May and reflects how much the bank is struggling to access capital in the current environment.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.05%	0.04%	2.77%	Merrill Lynch: FOCO
US Credit	0.30%	0.62%	3.27%	Barclays: LUCRER
European Credit	0.07%	0.22%	2.68%	Barclays: BECI
Barclays Global Credit Index	0.24%	0.49%	3.39%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.41%	-1.54%	3.88%	Merrill Lynch: CANO
Canadian High Yield	0.10%	0.28%	14.62%	Bloomberg: BCAH
US High Yield	0.09%	0.60%	15.92%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.17%	0.78%	2.38%	Bloomberg: TXPRAR
US Preferred	-0.93%	-1.11%	4.70%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.10%	-0.87%	14.85%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.95%	-1.55%	6.17%	Bloomberg: SPX

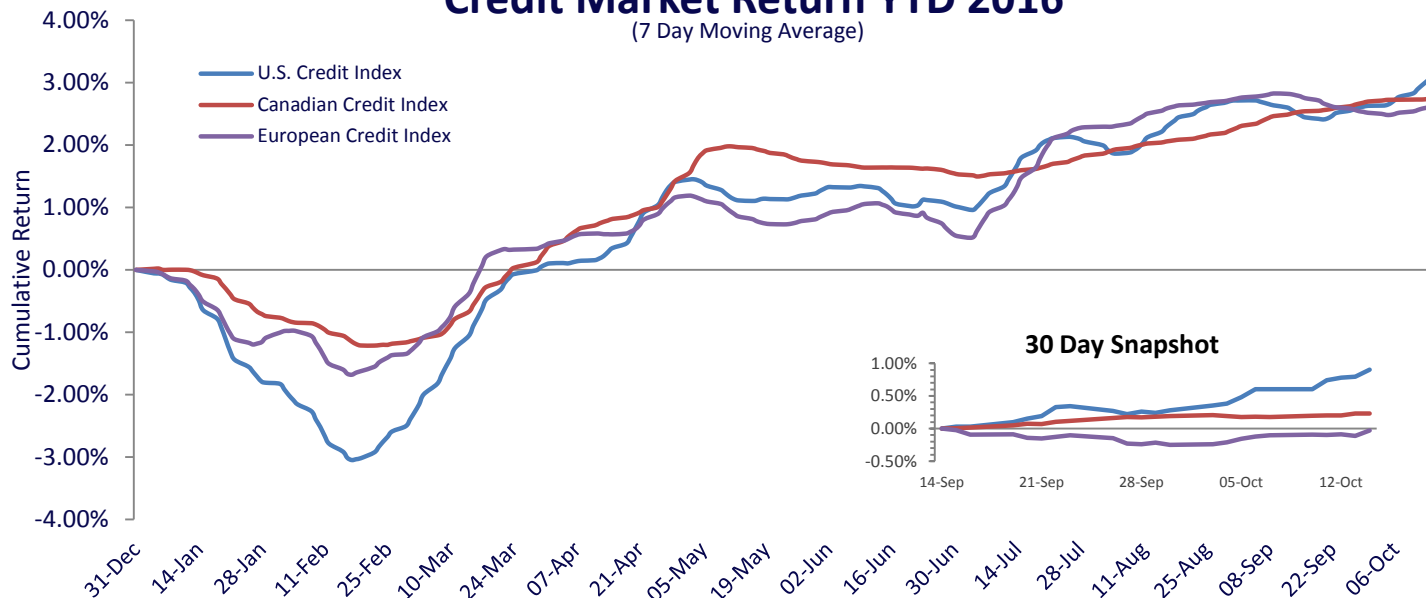


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### Credit Market Return YTD 2016

(7 Day Moving Average)



**US Credit Index:** Barclays US Aggregate Corporate Index (LUCRER) measures the excess return of a broad-based index of US investment-grade corporate bonds over a comparable index of US Treasuries with similar duration. Return data in USD.

**Canadian Credit Index:** Bank of America Merrill Lynch Canada Corporate Index (F0C0) tracks the excess return of a broad basket of investment-grade corporate bonds issued in the Canadian domestic market, over a comparable index of Canadian government bonds with similar duration. Return data in CAD.

**European Credit Index:** Barclays Europe Corporate Bond Index (BECI) measures the excess return of a broad-based index of Euro denominated investment-grade corporate bonds over a comparable index of Euro denominated government bonds with similar duration. Return data in EUR.

#### SELECTED NEW ISSUES

DATE	ISSUER	RATING	SIZE	MATURITY	LAUNCH SPREAD	CLOSING SPREAD	ADDITIONAL COMMENTS
10/11	Central 1 Credit Union (sub-debt)	A-/A	200mm	10y (5y call)	+231	+230	Priced tight relative to existing callable debt, but with better back-end spread.
10/11	Sumitomo Mitsui Financial	A1/A-	4.5Bn	Multi-tranche	+125 (10y)	+123	
10/12	BMW Canada Inc	A2/A+	300mm	4yr	+108	+104	Well-received with a broad buyer base.
10/13	CSX Corporation	Baa1/BBB+	2.2bn	Multi-tranche	+135 (30yr)	+135	Included a 50y tranche at 4.25% yield which should attract ongoing demand from duration buyers.
10/13	Ecolab Inc.	Baa1/A-	1bn	10y & 30y	+100 (10yr)	+95	Priced well through expected levels and still found heavy demand.
10/13	Bank of Montreal (NVCC Pref)	Baa1/BBB+	600mm	Perp (5y call)	4.85%	N/A	Highly anticipated and upsized from \$350mm. Attractively priced with solid demand. Deal of the week!

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